

CITY OF CENTERVILLE  
INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS  
SUPPLEMENTARY AND OTHER INFORMATION  
SCHEDULE OF FINDINGS  
JUNE 30, 2014

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City of Centerville

Officials

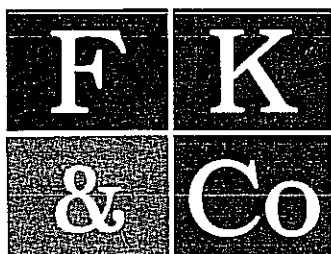
Name	Title	Term Expires
<b>(Before January 2014)</b>		
Jim Senior *	Mayor	January, 2014
Jan Spurgeon **	Mayor	January, 2014
Richard Smith	Council Member	January, 2016
Edwin Brand	Council Member	January, 2016
Rob Lind	Council Member	January, 2016
Darrin Hamilton	Council Member	January, 2014
Jay Dillard	Council Member	January, 2014
Patrick Antonen***	City Administrator/City Clerk	Indefinite
Mike Craver	Attorney	Indefinite
<b>(After January 2014)</b>		
Jan Spurgeon	Mayor	January, 2016
Richard Smith	Council Member	January, 2016
Jay Dillard	Council Member	January, 2016
Rob Lind	Council Member	January, 2016
Darrin Hamilton	Council Member	January, 2018
Ron Creagan	Council Member	January, 2018
Patrick Antonen	City Administrator/City Clerk	Indefinite
Mike Craver	Attorney	Indefinite

\* - Passed away on August 1, 2013.

\*\* - Appointed on September 2, 2013.

\*\*\* - Began on August 1, 2013.

City of Centerville



**FALLER, KINCHELOE & CO, PLC**

**Certified Public Accountants**

Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Centerville, Iowa, (City) as of and for the year ended June 30, 2014, and the related Notes to Financial Statements, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## Opinions

### *Basis for Adverse Opinion on Aggregate Discretely Presented Component Units*

The financial statements referred to above do not include financial data for the City's legally separate component units. The basis of cash receipts and disbursements require financial data for these component units to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity that include the financial data for its component units. The City has not issued such reporting entity financial statements. The amount by which this departure would affect the receipts, disbursements and the cash basis balances of the government-wide financial statement for the omitted discretely presented component units has not been determined.

### *Adverse Opinion on Aggregate Discretely Presented Component Units*

In our opinion, because of the significance of the matter described in the "Basis for Adverse Opinion on Aggregate Discretely Presented Component Units" paragraph, the financial statements referred to above do not present fairly the financial position of the aggregate discretely presented component units of the City as of June 30, 2014, or the changes in financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.

### *Unmodified Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information for the primary government of the City as of June 30, 2014, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

## Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

## Other Matters

### *Supplementary and Other Information*

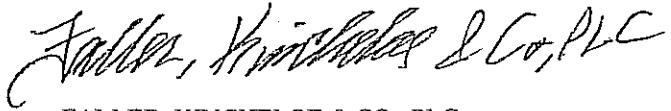
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's primary government financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the year ended June 30, 2013 (which are not presented herein) and expressed unmodified opinions on the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information which were prepared on the basis of cash receipts and disbursements. We expressed an adverse opinion on the financial statements of the aggregate discretely presented component units due to the omission of the City's component units. The financial statements for the eight years ended June 30, 2012 (which are not presented herein) were audited by another auditor who expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 6 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the primary government financial statements. Such information has been subjected to the auditing procedures applied in the audit of the primary government financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the primary government financial statements or to the primary government financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the primary government financial statements taken as a whole.

The other information, Management's Discussion and Analysis and the budgetary comparison information on pages 8 through 13 and 32 through 33 has not been subjected to the auditing procedures applied in the audit of the primary government financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 23, 2015, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control over financial reporting and compliance.

  
FALLER, KINCHELOE & CO., PLC

March 23, 2015  
Des Moines, Iowa

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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City of Centerville (City) provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2014. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### 2014 FINANCIAL HIGHLIGHTS

- ❖ Receipts of the City's governmental activities increased 30.5%, or approximately \$1,282,000, from fiscal year 2013 to fiscal year 2014. Note proceeds increased approximately \$886,000. Capital grants, contributions and restricted interest increased approximately \$484,000, sale of assets decreased approximately \$46,000, and property tax increased approximately \$188,000.
- ❖ Disbursements of the City's governmental activities increased 39.3%, or approximately \$1,498,000, in fiscal year 2014 from fiscal year 2013. Public safety and general government disbursements decreased \$76,000 and \$41,000 respectively. Debt service, public works, capital projects and payments to refunding bond escrow agent disbursements increased approximately \$110,000, \$195,000, \$263,000 and \$968,000, respectively.
- ❖ The City's total cash basis net assets decreased 1.7%, or approximately \$112,000, from June 30, 2013 to June 30, 2014. Of this amount, the cash basis net position of the governmental activities increased approximately \$192,000 and the cash basis net position of the business type activities decreased approximately \$304,000.

### USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Cash Basis Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide financial statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Supplementary Information provides detailed information about the non-major governmental funds, the non-major enterprise funds and the non-major internal service funds, as well as the City's indebtedness.

### BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U. S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.



## REPORTING THE CITY'S FINANCIAL ACTIVITIES

### *Government-wide Financial Statement*

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Position reports information which helps answer this question.

The Statement of Activities and Net Position presents the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

- ❖ Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- ❖ Business Type Activities include the sanitary sewer system, storm sewer, and the airport. These activities are financed primarily by user charges.

### *Fund Financial Statements*

The City has three kinds of funds:

(1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Local Option Sales Tax, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

(2) Proprietary funds account for the City's Enterprise Funds and the Internal Service Fund. Enterprise Funds are used to report business type activities. The City maintains Enterprise Funds to provide separate information for the Sewer Fund, considered to be a major fund of the City. The City also maintains a Storm Sewer Fund and an Airport Fund to provide separate information for these business activities, considered to be non-major funds of the City. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

(3) Fiduciary funds account for resources held for others. The Fiduciary fund consists of the Water Department Clearing Fund.

Reconciliations between the government-wide financial statement and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from approximately \$3.555 million to approximately \$3.747 million. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities (Expressed in Thousands)		
	Year Ended June 30,	
	2014	2013
Receipts:		
Program receipts:		
Charges for service	\$ 234	318
Operating grants, contributions and restricted interest	902	906
Capital grants, contributions and restricted interest	504	20
General receipts:		
Property tax	2,045	1,857
Tax increment financing	200	201
Local option sales tax	492	551
Grants and contributions not restricted to specific purposes	48	52
Hotel-Motel tax	70	83
Note proceeds	976	90
Unrestricted interest on investments	17	18
Other general receipts	-	64
Sale of assets	-	46
Total receipts	5,488	4,206
Disbursements:		
Public safety	1,738	1,814
Public works	690	495
Culture and recreation	467	361
Community and economic development	45	72
General government	372	413
Debt service	386	276
Capital projects	640	377
Payment to refunding bond escrow agent	968	-
Total disbursements	5,306	3,808
Change in cash basis net position before transfers	182	398
Transfers, net	10	(21)
Change in cash basis net position	192	377
Cash basis net position beginning of year	3,555	3,178
Cash basis net position end of year	\$ 3,747	3,555

The City's total receipts for governmental activities increased 30.5%, or approximately \$1,282,000, from fiscal year 2013 to fiscal year 2014. The total cost of all programs and services increased approximately \$1,497,000, or 39.3%, with no new programs added this year. The significant increase in bond proceeds was due to refinancing of general obligation bonds.

The City increased property tax receipts for fiscal year 2014 an average of 10.1%. This increased the City's property tax receipts approximately \$188,000 in fiscal year 2014.

The cost of all governmental activities this year was approximately \$5.306 million compared to approximately \$3.808 million last year. However, as shown in the Statement of Activities and Net Position on page 15, the amount taxpayers ultimately financed for these activities was approximately \$2.699 million because some of the cost was paid by those directly benefited from the programs (approximately \$234,000) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (approximately \$1,406,000). Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, increased in fiscal year 2014 from approximately \$1,244,000 to approximately \$1,640,000, principally due to the receipt of more grant money.

Changes in Cash Basis Net Position of Business Type Activities (Expressed in Thousands)		
	Year Ended June 30,	
	2014	2013
Receipts:		
Program receipts:		
Charges for service:		
Sewer	\$ 1,353	1,563
Storm sewer	83	91
Airport	148	127
Capital grants, contributions and restricted interest	-	679
General receipts:		
Unrestricted interest on investments	1	-
Other general receipts	4	107
Bond proceeds (net of discount)	257	936
Total receipts	<u>1,846</u>	<u>3,503</u>
Disbursements:		
Sewer	2,028	2,505
Storm sewer	-	9
Airport	112	107
Total disbursements	<u>2,140</u>	<u>2,621</u>
Change in cash basis net position before transfers	(294)	882
Transfers, net	<u>(10)</u>	<u>21</u>
Change in cash basis net position	(304)	903
Cash basis net position beginning of year	<u>3,220</u>	<u>2,317</u>
Cash basis net position end of year	<u>\$ 2,916</u>	<u>3,220</u>

Total business type activities receipts for the fiscal year were approximately \$1.846 million compared to approximately \$3.503 million last year. The decrease is due in large part to the lack of bond proceeds as well as a decrease in capital grants. The cash balance decreased approximately \$304,000 from the prior year, primarily due to sewer improvement costs. Total disbursements for the fiscal year decreased 18.35% to approximately \$2.140 million, primarily due to decreased sewer repair and construction projects in fiscal year 2014.

## **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City completed the year, its governmental funds reported a combined fund balance of \$3,686,508, an increase of \$193,116 from last year's total of \$3,493,392. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- ❖ The General Fund cash balance decreased \$47,889 from the prior year to \$319,681. This decrease is primarily due to the City spending more money from the General Fund than what it receives in the General Fund.
- ❖ The Special Revenue, Road Use Tax Fund cash balance decreased by \$9,996 to \$460,448 as of June 30, 2014. An increase in materials and equipment purchased decreased the cash balance in this fund. The City intends to use this money to upgrade the condition of the City's streets.
- ❖ The Special Revenue, Local Option Sales Tax Fund cash balance increased by \$315,600 to \$2,170,670 as of June 30, 2014. This fund is accumulating resources for a pool and park projects which will begin in FY 2015. This fund also is accumulating funding for a fire truck which will be purchased within the next decade.
- ❖ The Special Revenue, Employee Benefits Fund cash balance increased by \$46,873 to \$38,126 as of June 30, 2014. This fund is no longer negative as it was during the previous year.
- ❖ The Special Revenue, Urban Renewal Tax Increment Fund cash balance increased by \$83,141 to \$371,160 at June 30, 2014. This fund is accumulating monies to pay off debt, and to help pay for part of a construction project.
- ❖ The Debt Service Fund cash balance decreased by \$10,998 to \$221,748 at June 30, 2014. The City is gradually reducing the balance in this fund.

## **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- ❖ The Enterprise, Sewer Fund cash balance decreased by \$414,556 to \$2,720,675 as of June 30, 2014, due primarily to an increase cost in sewer lining projects. This rest of this balance will be used to fund major sewer upgrades in the future.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget once. The budget amendment was approved on May 19, 2014. The budget amendment increased receipts by \$1,189,787 and disbursements by \$1,434,276. The increase in disbursements was to provide for additional disbursements in certain City departments.

Even with the budget amendments, actual disbursements for the public works, culture and recreation, community and economic development and capital project functions were \$57,584, \$197,714, \$15,056 and \$587,951, respectively, more than the amended budget. City personnel will do a better job estimating for the budget amendments in future years.

## DEBT ADMINISTRATION

At June 30, 2014, the City had \$2,305,028 in bonds and other long-term debt outstanding, compared to \$2,380,812 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2014	2013
General obligation bonds	\$ 1,170	1,495
Lease-purchase agreements	51	-
Revenue note	1,084	886
Total	\$ 2,305	2,381

Debt decreased primarily as a result of payments made on debt during the fiscal year.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$1,170,000 is significantly below its constitutional debt limit of \$9,382,529.

More detailed information about the City's long-term debt is presented in Notes 3 and 4 to the financial statements.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials and citizens considered many factors when setting the fiscal year 2015 budget, tax rates, and fees that will be charged for various City activities. These indicators were taken into account when adopting the budget for fiscal year 2015. General fund receipts are budgeted to increase by \$96,047. Disbursements are budgeted to increase by \$54,794. The City's future plans are to undertake several large street projects in the coming years; expenses are likely to occur in both fiscal year 2015 and 2016. An increase in taxable valuation will be realized in the near future due the annexation of a housing development north of town. An increase in special revenue will be seen with the addition of a franchise fee.

The City has taken significant steps to enhance the appearance and function of the City through street, storm water, sanitary sewer and other major infrastructure initiatives. These and future improvements, while necessary, require the City to identify additional sources of funding other than cash reserves and general obligation debt to maintain consistency of future tax levies. Like nearly all other municipalities the rising cost of employee benefits has created a significant burden for the City. The City's required participation in the Municipal Fire and Police Retirement System (MFPRSI) continues to put significant financial burden on the City which is unlikely to change without major state legislative action.

## CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Patrick Antonen, City Administrator, 312 East Maple, P.O. Box 578, Centerville, Iowa 52544.

## Primary Government Financial Statements

## City of Centerville

Exhibit A

## Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2014

	Program Receipts				Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
	Disbursements	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
<b>Functions / Programs:</b>							
<b>Governmental activities:</b>							
Public safety	\$ 1,737,987	100,572	242,362	-	(1,395,053)	-	(1,395,053)
Public works	690,244	21,811	616,569	3,307	(48,557)	-	(48,557)
Culture and recreation	467,573	20,151	39,379	1,195	(406,848)	-	(406,848)
Community and economic development	45,206	-	1,308	77,751	33,853	-	33,853
General government	372,475	88,107	2,881	-	(281,487)	-	(281,487)
Debt service	385,816	-	-	262	(385,554)	-	(385,554)
Capital projects	640,051	3,256	-	421,433	(215,362)	-	(215,362)
Total governmental activities	4,339,352	233,897	902,499	503,948	(2,699,008)	-	(2,699,008)
<b>Business type activities:</b>							
Sewer	2,027,895	1,353,309	-	-	-	(674,586)	(674,586)
Storm sewer	236	83,080	-	-	-	82,844	82,844
Airport	111,803	147,556	-	-	-	35,753	35,753
Total business type activities	2,139,934	1,583,945	-	-	-	(555,989)	(555,989)
<b>Total</b>	<b>\$ 6,479,286</b>	<b>1,817,842</b>	<b>902,499</b>	<b>503,948</b>	<b>(2,699,008)</b>	<b>(555,989)</b>	<b>(3,254,997)</b>
<b>General Receipts and Transfers:</b>							
Property tax and other city tax levied for:							
General purposes					1,870,334	-	1,870,334
Debt service					174,726	-	174,726
Tax increment financing					200,114	-	200,114
Local option sales tax					492,136	-	492,136
Grants and contributions not restricted to specific purposes					48,361	-	48,361
Hotel-Motel tax					69,603	-	69,603
Note proceeds					976,351	256,680	1,233,031
Payment to refunding bond escrow agent					(968,123)	-	(968,123)
Unrestricted interest on investments					17,096	1,377	18,473
Miscellaneous					4	4,064	4,068
Transfers					10,037	(10,037)	-
Total general receipts and transfers					2,890,639	252,084	3,142,723
Change in cash basis net position					191,631	(303,905)	(112,274)
Cash basis net position beginning of year					3,554,992	3,220,293	6,775,285
Cash basis net position end of year					\$ 3,746,623	2,916,388	6,663,011
<b>Cash Basis Net Position</b>							
Restricted:							
Nonexpendable:							
Cemetery perpetual care					\$ 170,672	-	170,672
Expendable:							
Streets					460,448	-	460,448
Urban renewal purposes					371,160	-	371,160
Capital projects					42,746	-	42,746
Local option sales tax					2,170,670	-	2,170,670
Debt service					221,748	4,559	226,307
Other purposes					93,933	-	93,933
Unrestricted					215,246	2,911,829	3,127,075
<b>Total cash basis net position</b>					<b>\$ 3,746,623</b>	<b>2,916,388</b>	<b>6,663,011</b>

See notes to financial statements.

## City of Centerville

Exhibit B

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Governmental Funds

As of and for the year ended June 30, 2014

	Special Revenue						Total
	General	Road Use Tax	Local Option Sales Tax	Employee Benefits	Urban Renewal Tax Increment	Debt Service	
Receipts:							
Property tax	\$ 1,020,253	-	-	721,306	-	159,140	1,900,699
Tax increment financing	-	-	-	-	200,114	-	200,114
Other city tax	172,645	-	492,136	74,094	-	15,586	754,461
Licenses and permits	30,210	-	-	-	-	-	30,210
Use of money and property	13,213	-	3,818	-	252	261	17,608
Intergovernmental	173,870	551,992	-	-	-	422,683	1,148,545
Charges for service	307,912	-	-	-	-	-	307,912
Miscellaneous	138,871	-	-	2,881	-	-	153,167
Total receipts	1,856,974	551,992	495,954	798,281	200,366	174,987	4,512,716
Disbursements:							
Operating:							
Public safety	1,175,637	-	-	558,128	-	-	1,736,978
Public works	41,071	557,892	2,539	88,423	-	-	689,925
Culture and recreation	393,679	-	70,256	2,244	-	-	467,520
Community and economic development	24,720	-	20,486	-	-	-	45,206
General government	305,594	-	-	66,775	-	-	372,369
Debt service	-	-	-	-	-	385,816	385,816
Capital projects	-	-	16,828	-	-	-	640,051
Total disbursements	1,940,701	557,892	110,109	715,570	-	385,816	4,337,865
Excess (deficiency) of receipts over (under) disbursements	(83,727)	(5,900)	385,845	82,711	200,366	(210,829)	174,851
Other financing sources (uses):							
Proceeds of refunding notes, net of \$6,351 premium	-	-	-	-	-	976,351	976,351
Payment to refunding note escrow agent	-	-	-	-	-	(968,123)	(968,123)
Operating transfers in	35,838	-	-	-	-	191,603	237,441
Operating transfers out	-	(4,096)	(70,245)	(35,838)	(117,225)	-	(227,404)
Total other financing sources (uses)	35,838	(4,096)	(70,245)	(35,838)	(117,225)	199,831	18,265
Change in cash balances	(47,889)	(9,996)	315,600	46,873	83,141	(10,998)	193,116
Cash balances beginning of year	367,570	470,444	1,855,070	(8,747)	288,019	232,746	3,493,392
Cash balances end of year	\$ 319,681	460,448	2,170,670	38,126	371,160	221,748	3,686,508
Cash Basis Fund Balances							
Nonspendable - Cemetery perpetual care	\$ -	-	-	-	-	-	170,672
Restricted for:							
Streets	-	460,448	-	-	-	-	460,448
Urban renewal purposes	-	-	-	-	371,160	-	371,160
Capital projects	-	-	-	-	-	-	42,746
Local option sales tax	-	-	2,170,670	-	-	-	2,170,670
Debt service	-	-	-	-	-	221,748	221,748
Other purposes	11,743	-	-	38,126	-	-	93,913
Unassigned	307,938	-	-	-	-	-	155,131
Total cash basis fund balances	\$ 319,681	460,448	2,170,670	38,126	371,160	221,748	3,686,508

See notes to financial statements.



City of Centerville

Exhibit C

Reconciliation of the Statement of Cash  
Receipts, Disbursements and Changes in Cash Balances  
to the Cash Basis Statement of Activities and Net Position -  
Governmental Funds

As of and for the year ended June 30, 2014

Total governmental funds cash balances (page 16)	\$ 3,686,508
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*Amounts reported for governmental activities in the Cash Basis Statement  
of Activities and Net Position are different because:*

The Internal Service Funds are used by management to charge the costs of self funding of the City's health insurance benefit plan to individual funds and the cost of the flex plan. A portion of the cash balances of the Internal Service Funds are included in governmental activities in the Cash Basis Statement of Activities and Net Position.

60,115
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Cash basis net position of governmental activities (page 15)	\$ 3,746,623
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Change in cash balances (page 16)	\$ 193,116
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*Amounts reported for governmental activities in the Cash Basis Statement  
of Activities and Net Position are different because:*

The Internal Service Funds are used by management to charge the costs of self funding of the City's health insurance benefit plan to individual funds and the cost of the flex plan. A portion of the change in cash balances of the Internal Service Funds are reported with governmental activities in the Cash Basis Statement of Activities and Net Position.

(1,485)
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Change in cash basis net position of governmental activities (page 15)	\$ 191,631
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See notes to financial statements.

## City of Centerville

Exhibit D

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Proprietary Funds

As of and for the year ended June 30, 2014

	Enterprise			Internal Service
	Sewer	Nonmajor	Total	
Operating receipts:				
Use of money and property	\$ 1,377	44,425	45,802	-
Charges for service	1,353,309	186,211	1,539,520	472,662
Miscellaneous	-	-	-	177,146
Total operating receipts	1,354,686	230,636	1,585,322	649,808
Operating disbursements:				
Governmental activities:				
Public safety	-	-	-	265,980
Public works	-	-	-	82,780
Culture and recreation	-	-	-	14,622
General government	-	-	-	212,432
Business type activities	610,374	112,039	722,413	75,762
Total operating disbursements	610,374	112,039	722,413	651,576
Excess (deficiency) of operating receipts over (under) operating disbursements	744,312	118,597	862,909	(1,768)
Non-operating receipts (disbursements):				
Miscellaneous	1,727	2,337	4,064	-
Note proceeds	256,680	-	256,680	-
Debt service	(80,066)	-	(80,066)	-
Capital projects	(1,337,172)	-	(1,337,172)	-
Net non-operating receipts (disbursements)	(1,158,831)	2,337	(1,156,494)	-
Excess (deficiency) of receipts over (under) disbursements	(414,519)	120,934	(293,585)	(1,768)
Other financing sources (uses):				
Operating transfers out	(37)	(10,000)	(10,037)	-
Total other financing sources (uses)	(37)	(10,000)	(10,037)	-
Change in cash balances	(414,556)	110,934	(303,622)	(1,768)
Cash balances beginning of year	3,135,231	73,329	3,208,560	73,333
Cash balances end of year	\$ 2,720,675	184,263	2,904,938	71,565
<b>Cash Basis Fund Balances</b>				
Restricted for debt service	\$ 4,559	-	4,559	
Unrestricted	2,716,116	184,263	2,900,379	71,565
Total cash basis fund balances	\$ 2,720,675	184,263	2,904,938	71,565

See notes to financial statements.

City of Centerville

Exhibit E

Reconciliation of the Statement of Cash  
Receipts, Disbursements and Changes in Cash Balances  
to the Cash Basis Statement of Activities and Net Position -  
Proprietary Funds

As of and for the year ended June 30, 2014

Total enterprise funds cash balances (page 18) \$ 2,904,938

*Amounts reported for business type activities in the Cash Basis Statement  
of Activities and Net Position are different because:*

The Internal Service Funds are used by management to charge the costs of self funding of the City's health insurance benefit plan to individual funds and the cost of the flex plan. A portion of the cash balances of the Internal Service Funds are included in business type activities in the Cash Basis Statement of Activities and Net Position.

11,450

Cash basis net position of business type activities (page 15) \$ 2,916,388

Change in cash balances (page 18) \$ (303,622)

*Amounts reported for business type activities in the Cash Basis Statement  
of Activities and Net Position are different because:*

The Internal Service Funds are used by management to charge the costs of self funding of the City's health insurance benefit plan to individual funds and the cost of the flex plan. A portion of the change in the cash balances of the Internal Service Funds are reported with business type activities in the Cash Basis Statement of Activities and Net Position.

(283)

Change in cash basis net position of business type activities (page 15) \$ (303,905)

See notes to financial statements.

City of Centerville

Exhibit F

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Fiduciary Fund

As of and for the year ended June 30, 2014

	Agency Water Department Clearing
Additions:	
Reimbursement from Water Department	\$ 197,567
Total additions	<u>197,567</u>
Deductions:	
Payments made on behalf of Water Department	<u>197,567</u>
Total deductions	<u>197,567</u>
Change in cash balances	-
Cash balances beginning of year	<u>-</u>
Cash balances end of year	<u><u>\$ -</u></u>

See notes to financial statements.

# City of Centerville

## Notes to Financial Statements

June 30, 2014

### (1) Summary of Significant Accounting Policies

The City of Centerville (City) is a political subdivision of the State of Iowa located in Appanoose County. It was first incorporated in 1855 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides sewer and storm sewer utilities for its citizens.

#### A. Reporting Entity

Except as discussed below, for financial reporting purposes, the City has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

These financial statements present the City (the primary government) and exclude the City's component units. The component units discussed below are not included in the City's reporting entity although its operational or financial relationships with the City are significant.

#### Excluded Component Units

The Centerville Municipal Waterworks (Waterworks) was established under Chapter 388 of the Code of Iowa, is legally separate from the City, but has the potential to provide specific benefits to, or impose specific financial burdens on the City. The Waterworks is governed by a five-member board appointed by the Mayor and approved by the City Council. The Waterworks' operating budget is subject to the approval of the City Council. Complete financial statements of the component unit, which will issue separate financial statements, can be obtained from the Waterworks administrative office.

The Friends of the Drake Public Library has been incorporated under the provisions of the Iowa Nonprofit Corporation Act to operate exclusively for charitable purposes for the enhancement and improvement of the Centerville Public Library. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Friends of the Drake Public Library meets the definition of a component unit. Based on these criteria, the economic resources received or held by the Friends of the Drake Public Library are substantially for the direct benefit of the City of Centerville Public Library.

The Friends of Centerville Parks, Inc. has been incorporated under the provisions of the Iowa Nonprofit Corporation Act to operate exclusively for charitable purposes for the enhancement and improvement of the Centerville park system. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Friends of Centerville Parks, Inc. meets the definition of a component unit. Based on these criteria, the economic resources received or held by the Friends of Centerville Parks, Inc. are substantially for the direct benefit of the City's park system.

The Centerville Volunteers Firefighters Association has been incorporated under the provisions of the Iowa Nonprofit Corporation Act to operate exclusively for charitable purposes for the enhancement and improvement of the Centerville Fire Department. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Centerville Volunteers Firefighters Association meets the definition of a component unit. Based on these criteria, the economic resources received or held by the Centerville Volunteers Firefighters Association are substantially for the direct benefit of the City of Centerville Fire Department.

#### Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Appanoose County Assessor's Conference Board, Appanoose County Emergency Management Commission, Appanoose County Joint E911 Service Board and the Rathbun Area Solid Waste Management Commission.

#### B. Basis of Presentation

Government-wide Financial Statement – The Cash Basis Statement of Activities and Net Position reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from the business type activities, which rely to a significant extent on fees and charges for service.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Nonexpendable restricted net position is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City, including the City's Permanent Fund.

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position often have constraints on cash balances imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions, and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary and the fiduciary fund, even though the latter are excluded from the government-wide financial statement. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds and proprietary funds are aggregated and reported as nonmajor governmental funds, nonmajor enterprise funds and internal service funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

#### Special Revenue:

The Road Use Tax Fund is used to account for road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Local Option Sales Tax Fund is used to account for local option sales tax receipts and other receipts to be used for projects financed with these monies.

The Employee Benefits Fund is used to account for property tax receipts and other receipts to be used for the related payment of employee benefits.

The Urban Renewal Tax Increment Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary fund:

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The City also reports the following additional proprietary funds:

An Internal Service Fund is utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost reimbursement basis.

Additionally, the City reports a fiduciary fund which acts as a clearing account for payments made by the City on behalf of the Waterworks and the related reimbursements from the Waterworks.

#### C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

#### D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the City Council intends to use for specific purposes.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2014, disbursements exceeded the amounts budgeted in the public works, culture and recreation, community and economic development and capital projects functions.

(2) **Cash and Pooled Investments**

The City's deposits in banks at June 30, 2014 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2014, the City had no investments meeting the disclosure requirements of Government Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

(3) **Notes Payable**

Annual debt service requirements to maturity for general obligation notes are as follows:

Year Ending June 30,	General Obligation Notes		
	Principal	Interest	Total
2015	\$ 355,000	18,460	373,460
2016	360,000	14,000	374,000
2017	235,000	9,100	244,100
2018	220,000	4,400	224,400
	<u>\$1,170,000</u>	<u>45,960</u>	<u>1,215,960</u>

General Obligation Refunding Capital Loan Notes

On July 9, 2013, the City issued \$970,000 of general obligation refunding capital loan notes for the current refunding of \$300,000 of general obligation capital loan notes issued May 1, 2003, and \$665,000 of general obligation capital loan notes issued September 14, 2011. The bonds bear interest at 1.00%-2.00% per annum and mature on June 1, 2018. The refunding was undertaken to reduce total debt service payments over the next five years by \$23,165 and resulted in an economic gain of \$22,487.



## Sewer Revenue Capital Loan Notes

On March 8, 2013, the City entered into an agreement with the Iowa Finance Authority and the Iowa Department of Natural Resources (DNR) for the issuance of sewer revenue capital loan notes of up to \$1,382,000 with interest of 1.75% per annum. The agreement also requires the City to annually pay .25% servicing fee on the outstanding principal balance. The notes were issued pursuant to the provisions of Chapter 384.24A and 384.83 of the Code of Iowa to pay the cost of constructing improvements and extensions to the sewage treatment facilities. The City will draw down funds from the DNR upon request to reimburse the City for costs as they are incurred. At June 30, 2014, the City had drawn down \$1,199,492 of the authorized amount, including an initiation fee of \$6,910 (.5% of the authorized borrowing for the sewer capital loan notes) charged by the Iowa Finance Authority which was withheld from the first proceeds of the capital loan notes. A final repayment schedule has not been adopted. However, the City paid principal of \$58,000 and interest of \$22,066 during fiscal year 2014 under a preliminary repayment schedule.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay the sewer revenue capital loan notes. The percentage of net receipts required to pay annual principal and interest on the sewer capital loan notes and the total amount of principal and interest remaining to be paid on the sewer capital loan notes at June 30, 2014 are not available since the final repayment schedule has not been adopted for the sewer capital loan notes. For the current year, principal and interest paid and total customer net receipts were \$80,066 and \$744,312, respectively.

The resolution providing for the issuance of the sewer revenue capital loan notes issued under a loan agreement between the City, the Iowa Finance Authority and the Iowa Department of Natural Resources includes the following provisions:

- (a) The sewer revenue capital loan notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) User rates shall be established at a level which produces and maintains net revenues equal to at least 110% of the amount of principal and interest on the notes falling due in the same year.
- (c) Monthly transfers of 1/6 of the installment of interest next due and 1/12 of installment principal due shall be made to a sewer note sinking account for the purpose of making the note principal and interest payments when due.

### **(4) Lease Purchase Agreement**

On July 15, 2013, the City entered into a general obligation lease-purchase agreement to lease police department vehicles. The following is a schedule of the future minimum lease payments and the present value of net minimum lease payments under the agreement in effect at June 30, 2014:

Year Ending June 30,	Amount
2015	\$ -
2016	17,834
2017	17,834
2018	17,834
Total minimum lease payments	53,502
Less amount representing interest	(2,966)
Present value of net minimum lease payments	<u>\$ 50,536</u>

Payments under this lease-purchase agreement totaled \$17,834 during the year ended June 30, 2014.

(5) **Interfund Loan**

The General Fund loaned money to the Enterprise, Airport Fund. At June, 30, 2014, \$66,137 was due from the Enterprise, Airport Fund to the General Fund. The interest rate on this loan is 1.7%, with no set repayment terms.

(6) **Pension and Retirement Benefits**

Iowa Public Employees Retirement System

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 5.95% of their annual covered salary and the City is required to contribute 8.93% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2014, 2013 and 2012 were \$94,250 \$83,706 and \$81,050, respectively, equal to the required contributions for each year.

Municipal Fire and Police Retirement System of Iowa

The City contributes to the Municipal Fire and Police Retirement System of Iowa (the Plan), which is a cost-sharing, multiple-employer defined benefit pension plan administered by a Board of Trustees. The Plan provides retirement, disability and death benefits established by state statute to plan members and beneficiaries. The Plan issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to Municipal Fire and Police Retirement System of Iowa, 7155 Lake Drive, Suite 201, West Des Moines, IA 50266.

Plan members are required to contribute 9.40% of earnable compensation and the City's contribution rate, based upon an actuarially determined normal contribution rate, is 30.12% of earnable compensation. Contribution requirements are established by state statute. The City's contribution to the Plan for the years ended June 30, 2014, 2013 and 2012 were \$185,298, \$159,051 and \$164,755, respectively, which met the required contribution for each year.

(7) **Other Postemployment Benefits (OPEB)**

Plan Description – The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees and their families, former employees, and retirees and their spouses. There are 36 active, no retired members and 8 former employees in the plan. Retired participants must be age 55 or older at retirement. Former employees must have been employed by the City on a full-time basis for over twenty years to qualify for the benefits.

The medical/prescription drug benefits are provided through a self-insured plan. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees. However, for former employees that have been employed by the City on a full-time basis for over twenty years, the City will pay for 50% of the cost of the single health insurance premium to age 65.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$634.14 for single coverage and \$1,497.80 for family coverage. The same monthly premiums apply to retirees and former employees. For the year ended June 30, 2014, the City contributed \$454,860 and plan members eligible for benefits contributed \$119,588 to the plan.

**(8) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation, compensatory, and personal hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation, compensatory and personal hours payable to employees at June 30, 2014, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Personal time	\$ 283
Compensatory time	28,176
Vacation	85,124
Total	<u>\$ 113,583</u>

This liability has been computed based on rates of pay in effect at June 30, 2014.

**(9) Related Party Transactions**

The City had business transactions between the City and City officials totaling \$1,302 during the year ended June 30, 2014.

**(10) Self-Insured Medical Plan**

The City has a self-insured medical plan for City employees. A fixed monthly fee per participating employee is paid to an insurance administrative company to administer the plan and evaluate claims. The plan is funded by both employee and City contributions, and is administered through a service agreement with TriStar Benefit Administrators.

The City escrows funds each month to be used to pay medical claims incurred. Except in one instance, the maximum exposure by the City for one individual in a twelve-month period is \$30,000. For one individual, the maximum exposure by the City in a twelve-month period is \$100,000. Claims in excess of these amounts are paid by the insurance administrative company through the purchase of stop loss insurance. The maximum aggregate benefit to be paid by the insurance company in a contract year is \$1,000,000. The City records the plan receipts and disbursements in the Employee Health Fund as an Internal Service Fund. Monthly payments to the fund are recorded as disbursements from the operating funds.

**(11) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2014 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Employee Benefits	<u>\$ 35,838</u>
Debt Service	Special Revenue:	
	Road Use Tax	4,096
	Local Option Sales Tax	70,245
	Urban Renewal Tax Increment	117,225
	Enterprise:	
	Sewer	<u>37</u>
		<u>191,603</u>
Capital Projects:	Enterprise:	
Airport Construction	Airport	<u>10,000</u>
		<u>\$ 237,441</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

**(12) Risk Management**

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 700 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at a level determined by the Board not to exceed 300% of total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2014 were \$95,587.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location. Property risks exceeding \$150,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim, property loss or series of claims or losses exceeds the amount of risk-sharing protection provided by the City's risk-sharing certificate, or in the event a casualty claim, property loss or series of claims or losses exhausts the Pool's funds and any reinsurance and any excess risk-sharing recoveries, then payment of such claims or losses shall be the obligation of the respective individual member against whom the claim was made or the loss was incurred. As of June 30, 2014, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Upon withdrawal, a formula set forth in the Pool's intergovernmental contract with its members is applied to determine the amount (if any) to be refunded to the withdrawing member.

The City also carries commercial insurance purchased from other insurers for coverage associated with workers compensation in the amount of \$1,000,000 each accident, \$1,000,000 memorandum limit, and \$1,000,000 each employee; and airport owners liability for various coverage limits. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(13) Deficit Balances**

The Special Revenue, Canine Fund had a deficit balance of \$1,135 at June 30, 2014. This deficit was the result of costs incurred in excess of donations received. This deficit will be eliminated through donations received.

The Capital Projects, Street Construction Fund had a deficit balance of \$95,050 at June 30, 2014. This deficit balance was a result of project costs incurred prior to a receipt of a loan. This deficit will be eliminated from a subsequent loan.

The Capital Projects, Airport Construction Fund had a deficit balance of \$56,622 at June 30, 2014. This deficit balance was a result of project costs incurred prior to a receipt of a grant. This deficit will be eliminated from a transfer from the General Fund, and receipts from a grant.

**(14) Contingencies**

The City receives payments in lieu of taxes from the local housing agency. The City is in the process of determining whether some of these funds received in prior years from the local housing agency should have been distributed to political subdivisions in the County. During the year ended June 30, 2009, the City paid the Centerville Community School District a total of \$50,000 as partial settlement of the payment in lieu of tax amount. The City is still working with the Centerville Community School District and Appanoose County in relation to this issue. The amount of funds the City received from the local housing agency which would be distributed to the political subdivisions, if any, is undeterminable.

The City participates in a number of Federal and State grant/loan programs. These programs are subject to program compliance audits by the grantors or their representatives. Entitlement to these resources is generally conditional upon compliance with the terms and conditions of grant and loan agreements and applicable federal and state regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a federal or state audit may become a liability to the City. The City's management believes such revisions or disallowances, if any, will not be material to the City.

**(15) Commitments**

The City entered into various contracts for sewer repair, sewer cleaning and lining, and sidewalk construction. Approximately \$782,000 remains to be paid on these projects. It is anticipated that these projects will be completed in fiscal year 2015. The City intends to pay for these projects from existing cash reserves and from a grant.

The City contracted for the construction of a fence around the airport. The total cost of this project was approximately \$120,000, and will be paid for as construction is completed in fiscal year 2015. The City intends to pay for this project from existing cash reserves and from a grant.

The City has committed \$25,000 to be paid to local organizations in fiscal year 2015 for cultural and community and economic development activities.

The City can borrow an additional \$182,508 in relation to its Sewer Revenue Capital Loan Notes.

**(16) Fund Balances**

The City's restricted fund balance of \$11,743 in the General Fund as of June 30, 2014 consists of hotel/motel tax monies.

The City has assigned fund balances in the general fund of \$500,839, which exceeds the \$307,938 available to be assigned. At June 30, 2014 this balance consists of funds assigned for the fire department, cemetery, crime stoppers and the library. The City is unable to determine how much of the \$307,938 available assigned fund balance should be allocated to the various programs. The Governmental Accounting Standards Board indicates that a government should not report assigned fund balances if the assignment would result in a deficit in the unassigned fund balance in the general fund; therefore, all general funds not restricted are considered to be unassigned.

**(17) Subsequent Events**

The City was a defendant in a lawsuit, which was settled in fiscal year 2015. The City Attorney indicated that the City's liability not covered by insurance was \$3,000. The \$3,000 will be paid in fiscal year 2015.

The City borrowed \$4,165,000 in fiscal year 2015 to primarily pay for the costs of infrastructure.

The City paid approximately \$150,000 in fiscal year 2015 to pay for seal coating of some streets.

The City has evaluated subsequent events through March 23, 2015, which is the date that the financial statements were available to be issued.

**(18) Prospective Accounting Change**

The Governmental Accounting Standards Board has issued Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB No. 27. This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information.

### Other Information

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City of Centerville

Budgetary Comparison Schedule  
of Receipts, Disbursements, and Changes in Balances -  
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds

Other Information

Year ended June 30, 2014

	(Unaudited)									
	Centerville Municipal Waterworks									
	Component Unit		Less		Funds not		Required to		Net	
	Governmental Funds	Proprietary Funds	Actual	Required to be Budgeted	Actual	Required to be Budgeted	Actual	Required to be Budgeted	Total	Budgeted Amounts
	Actual	Actual							Original	Final
<b>Receipts:</b>										
Property tax	\$ 1,900,699	-	-	-	-	-	-	-	1,900,699	1,845,418
Tax increment financing	200,114	-	-	-	-	-	-	-	200,114	200,000
Other city tax	754,461	-	-	-	-	-	-	-	754,461	894,798
Licenses and permits	30,210	-	-	-	-	-	-	-	30,210	27,645
Use of money and property	17,608	45,802	-	-	18,150	-	-	-	81,560	14,000
Intergovernmental	1,148,545	-	-	-	-	-	-	-	1,148,545	1,279,307
Charges for service	307,912	2,012,182	-	472,662	2,449,885	1,379,552	-	-	3,169,609	3,169,609
Miscellaneous	153,167	181,210	-	177,146	105,064	-	-	-	262,295	180,575
<b>Total receipts</b>	<b>4,512,716</b>	<b>2,239,194</b>	<b>2,573,099</b>	<b>1,379,552</b>	<b>1,193,547</b>	<b>1,379,552</b>	<b>1,193,547</b>	<b>7,293,649</b>	<b>7,353,666</b>	<b>7,611,352</b>
<b>Disbursements:</b>										
Public safety	1,736,978	265,980	-	265,980	-	-	-	-	1,736,978	2,130,314
Public works	689,925	82,780	-	82,780	-	-	-	-	689,925	632,341
Culture and recreation	467,520	14,622	-	14,622	-	-	-	-	467,520	269,806
Community and economic development	45,206	-	-	-	-	-	-	-	45,206	30,150
General government	372,369	212,432	-	212,432	-	-	-	-	372,369	397,640
Debt service	385,816	-	-	-	-	-	-	-	385,816	371,760
Capital projects	640,051	-	-	-	-	-	-	-	640,051	52,100
Business type activities	-	2,215,413	-	75,762	2,945,620	1,369,268	-	-	3,991,898	4,285,898
<b>Total disbursements</b>	<b>4,337,865</b>	<b>2,791,227</b>	<b>2,945,620</b>	<b>651,576</b>	<b>2,945,620</b>	<b>1,369,268</b>	<b>1,576,352</b>	<b>8,053,868</b>	<b>7,486,009</b>	<b>8,920,285</b>
<b>Excess (deficiency) of receipts over (under) disbursements</b>	<b>174,851</b>	<b>(552,033)</b>	<b>(372,521)</b>	<b>(1,768)</b>	<b>(372,521)</b>	<b>10,284</b>	<b>(382,805)</b>	<b>(758,219)</b>	<b>(132,343)</b>	<b>(1,308,933)</b>
<b>Other financing sources, net</b>	<b>18,265</b>	<b>246,643</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>264,908</b>	<b>-</b>	<b>932,101</b>
<b>Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses</b>	<b>193,116</b>	<b>(305,390)</b>	<b>(372,521)</b>	<b>(1,768)</b>	<b>(372,521)</b>	<b>10,284</b>	<b>(382,805)</b>	<b>(493,311)</b>	<b>(132,343)</b>	<b>(376,832)</b>
<b>Balances beginning of year</b>	<b>3,493,392</b>	<b>3,281,893</b>	<b>993,496</b>	<b>73,333</b>	<b>993,496</b>	<b>(7,133)</b>	<b>1,000,629</b>	<b>7,702,581</b>	<b>7,760,026</b>	<b>7,662,730</b>
<b>Balances end of year</b>	<b>\$ 3,686,508</b>	<b>2,976,503</b>	<b>620,975</b>	<b>71,565</b>	<b>620,975</b>	<b>3,151</b>	<b>617,824</b>	<b>7,209,270</b>	<b>7,627,683</b>	<b>7,285,898</b>

See accompanying independent auditor's report.



City of Centerville

Notes to Other Information - Budgetary Reporting

June 30, 2014

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except for the Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$1,434,276. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2014, disbursements exceeded the amounts budgeted in the public works, culture and recreation, community and economic development and capital projects functions.

### Supplementary Information

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City of Centerville

Schedule 1

Schedule of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Nonmajor Governmental Funds

As of and for the year ended June 30, 2014

	Special Revenue				Capital Projects				Permanent	
	Friends of Oakland Cemetery	Carline	Special Law Enforcement	Safety	Animal Rescue	Street Construction	Increment Financing	Airport Construction	Cemetery Perpetual Care	Total
Receipts:										
Use of money and property	-	-	-	-	-	-	-	-	-	64
Intergovernmental	-	-	-	-	-	-	1,250	421,433	-	422,683
Miscellaneous	-	6,100	-	-	863	-	-	3,257	1,195	11,415
Total receipts	-	6,164	-	-	863	-	1,250	424,690	1,195	434,162
Disbursements:										
Operating:										
Public safety	-	1,788	50	-	1,375	-	-	-	-	3,213
Culture and recreation	-	1,341	-	-	-	-	-	-	-	1,341
Capital projects	-	-	-	-	-	194,963	1,250	427,010	-	623,223
Total disbursements	-	1,341	50	-	1,375	194,963	1,250	427,010	-	627,777
Excess (deficiency) of receipts over (under) disbursements	-	4,823	(1,788)	(50)	(512)	(194,963)	-	(2,320)	1,195	(193,615)
Other financing sources (uses):										
Operating transfers in	-	-	-	-	-	-	-	10,000	-	10,000
Total other financing sources (uses)	-	-	-	-	-	-	-	10,000	-	10,000
Change in cash balances	-	4,823	(1,788)	(50)	(512)	(194,963)	-	7,680	1,195	(183,615)
Cash balances beginning of year	6,772	21,382	653	10,300	225	99,913	42,746	(64,302)	169,477	288,290
Cash balances end of year	\$ 6,772	26,205	(1,135)	10,250	225	(95,050)	42,746	(56,622)	170,672	104,675
Cash Basis Fund Balances										
Nonspendable - Cemetery perpetual care	\$ -	-	-	-	-	-	-	-	170,672	170,672
Restricted for:										
Capital projects	-	-	-	-	-	-	42,746	-	-	42,746
Other purposes	6,772	26,205	-	10,250	225	612	-	-	-	44,064
Unassigned	-	-	(1,135)	-	-	(95,050)	-	(56,622)	-	(152,807)
Total cash basis fund balances	\$ 6,772	26,205	(1,135)	10,250	225	612	(95,050)	(56,622)	170,672	104,675

See notes to financial statements.

## City of Centerville

## Schedule 2

Schedule of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Nonmajor Enterprise Funds

As of and for the year ended June 30, 2014

	Enterprise		
	Storm Sewer	Airport	Total
Operating receipts:			
Use of money and property	\$ -	44,425	44,425
Charges for service	83,080	103,131	186,211
Total operating receipts	83,080	147,556	230,636
Operating disbursements:			
Business type activities	236	111,803	112,039
Total operating disbursements	236	111,803	112,039
Excess of operating receipts over operating disbursements	82,844	35,753	118,597
Non-operating receipts (disbursements):			
Miscellaneous	-	2,337	2,337
Net non-operating receipts (disbursements)	-	2,337	2,337
Excess of receipts over disbursements	82,844	38,090	120,934
Other financing sources (uses):			
Operating transfers out	-	(10,000)	(10,000)
Total other financing sources (uses)	-	(10,000)	(10,000)
Change in cash balances	82,844	28,090	110,934
Cash balances beginning of year	30,906	42,423	73,329
Cash balances end of year	\$ 113,750	70,513	184,263
<b>Cash Basis Fund Balances</b>			
Unrestricted	\$ 113,750	70,513	184,263
Total cash basis fund balances	\$ 113,750	70,513	184,263

See accompanying independent auditor's report.

## City of Centerville

Schedule 3

Schedule of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Internal Service Funds

As of and for the year ended June 30, 2014

	Employee Health	Flex Plan	Total
Operating receipts:			
Charges for service:			
Personal service costs from operating funds	\$ 472,662	-	472,662
Miscellaneous:			
Employee contributions and refunds	161,729	15,417	177,146
Total operating receipts	634,391	15,417	649,808
Operating disbursements:			
Governmental activities:			
Public safety	265,980	-	265,980
Public works	82,780	-	82,780
Culture and recreation	14,622	-	14,622
General government	194,734	17,698	212,432
Business type activities	75,762	-	75,762
Total operating disbursements	633,878	17,698	651,576
Change in cash balances	513	(2,281)	(1,768)
Cash balances beginning of year	72,848	485	73,333
Cash balances end of year	\$ 73,361	(1,796)	71,565
<b>Cash Basis Fund Balances</b>			
Unrestricted	\$ 73,361	(1,796)	71,565
Total cash basis fund balances	\$ 73,361	(1,796)	71,565

See accompanying independent auditor's report.

City of Centerville

Schedule 4

Schedule of Indebtedness

Year ended June 30, 2014

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
General Obligation Notes:									
Capital Loan Notes	May 1, 2003	1.25-4.50%	\$ 1,195,000	300,000	-	300,000	-	1,350	-
Refunding Capital Loan Notes	April 19, 2011	0.75-2.00%	755,000	440,000	-	180,000	260,000	6,970	-
Capital Loan Notes	September 14, 2011	0.75%	665,000	665,000	-	665,000	-	1,773	-
Capital Loan Notes	December 20, 2012	2.75%	90,000	90,000	-	90,000	-	2,344	-
Refunding Capital Loan Notes	July 9, 2013	1.00-2.00%	970,000	-	970,000	60,000	910,000	12,746	-
Total				\$ 1,495,000	970,000	1,295,000	1,170,000	25,183	-
Revenue Note:									
Sewer Revenue Capital Loan Notes	March 18, 2013	1.75%	\$ 1,382,000	885,812	256,680	58,000	1,084,492	22,066	-
General Obligation Lease Purchase:									
Equipment	July 15, 2013	3.53%	\$ 66,059	-	66,059	15,523	50,536	2,311	-

See accompanying independent auditor's report.

## City of Centerville

## Schedule 5

## Note Maturities

June 30, 2014

Year Ending June 30,	General Obligation Notes				
	Refunding Capital Loan Notes		Refunding Capital Loan Notes		Total
	Issued April 19, 2011		Issued July 9, 2013		
	Interest		Interest		
	Rates	Amount	Rates	Amount	
2015	1.70%	\$ 130,000	0.75%	\$ 225,000	355,000
2016	2.00%	130,000	-	230,000	360,000
2017	-	-	-	235,000	235,000
2018	-	-	-	220,000	220,000
		<u>\$ 260,000</u>		<u>\$ 910,000</u>	<u>1,170,000</u>

See accompanying independent auditor's report.

City of Centerville

Schedule 6

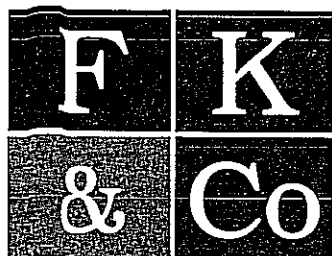
Schedule of Receipts By Source and Disbursements By Function -  
All Governmental Funds

For the Last Ten Years

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
<b>Receipts:</b>										
Property tax	\$1,900,699	1,677,161	1,762,218	1,847,624	1,776,026	1,908,000	1,942,462	1,882,266	1,955,748	1,724,719
Tax increment financing	200,114	200,916	198,567	202,070	302,720	-	-	-	4,983	391,046
Other city tax	754,461	864,735	660,113	602,174	645,421	594,999	563,109	620,114	502,078	401,423
Licenses and permits	30,210	28,148	46,883	25,782	29,773	29,484	28,114	67,657	66,598	71,047
Use of money and property	17,608	20,151	9,027	15,215	11,777	51,850	70,935	120,407	59,455	40,907
Intergovernmental	1,148,545	752,638	1,066,706	1,129,631	993,471	1,159,501	1,756,627	1,332,878	915,365	889,884
Charges for service	307,912	182,808	160,691	148,134	160,954	162,465	148,129	133,100	161,539	130,839
Special assessments	-	-	-	6,772	11,515	14,161	12,991	30,103	17,965	35,863
Miscellaneous	153,167	342,623	180,572	337,974	151,464	174,017	370,077	146,766	342,640	194,059
<b>Total</b>	<b>\$4,512,716</b>	<b>4,069,180</b>	<b>4,084,777</b>	<b>4,315,376</b>	<b>4,083,121</b>	<b>4,094,477</b>	<b>4,892,444</b>	<b>4,333,291</b>	<b>4,026,371</b>	<b>3,879,787</b>
<b>Disbursements:</b>										
<b>Operating:</b>										
Public safety	\$1,736,978	1,809,919	1,777,186	1,681,900	1,561,055	1,724,788	1,579,219	1,554,102	1,435,742	1,294,664
Public works	689,925	493,781	552,119	935,351	611,693	686,428	596,553	547,899	487,234	582,726
Culture and recreation	467,520	360,912	340,130	397,665	381,209	416,993	359,258	424,317	426,005	363,190
Community and economic development	45,206	72,196	16,235	53,003	13,710	13,705	38,578	178,143	366,224	259,328
General government	372,369	412,204	341,302	277,194	257,997	299,727	239,526	336,907	237,911	214,897
Debt service	385,816	275,703	211,821	502,502	495,480	693,641	562,694	784,457	772,593	820,223
Capital projects	640,051	376,873	816,458	414,431	300,675	646,584	1,191,523	850,995	279,500	769,504
<b>Total</b>	<b>\$4,337,865</b>	<b>3,801,588</b>	<b>4,055,251</b>	<b>4,262,046</b>	<b>3,621,819</b>	<b>4,481,866</b>	<b>4,567,351</b>	<b>4,676,820</b>	<b>4,005,209</b>	<b>4,304,532</b>

See accompanying independent auditor's report.





FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

Independent Auditor's Report on Internal Control  
over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards

To the Honorable Mayor and  
Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the primary government financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Centerville, Iowa (City) as of and for the year ended June 30, 2014, and the related Notes to Financial Statements, which collectively comprise the City's primary government financial statements, and have issued our report thereon dated March 23, 2015. Our report expressed unmodified opinions on the primary government financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles. Our report expressed an adverse opinion on the primary government financial statements of the aggregate discretely presented component units due to the omission of the Centerville Municipal Waterworks, the Friends of the Drake Public Library, the Friends of Centerville Parks, Inc. and the Centerville Volunteers Firefighters Association.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in the accompanying Schedule of Findings as items (A), (B), (C) and (D) to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings as item (E) to be a significant deficiency.

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Joel C. Faller, CPA  
2721 SW 30<sup>th</sup> Street  
(515) 362-5672

Alan Kincheloe, CPA  
Des Moines, Iowa  
CPA@FKCcpa.com

Ryan Roof, CPA  
50321-1409  
Fax (515) 362-5674

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2014 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

### City's Responses to the Findings

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



FALLER, KINCHELOE & CO., PLC

March 23, 2015  
Des Moines, Iowa

City of Centerville

Schedule of Findings

Year Ended June 30, 2014

**Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

(A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Although one to three individuals are involved in the accounting duties of the City of Centerville (City), the Centerville Public Library (Library) and the Centerville Municipal Airport (Airport), there is insufficient segregation of duties to prevent one individual from having control over each of the following areas:

- 1) Cash – reconciling bank accounts, initiating cash receipts and handling and recording cash.
- 2) Investments – detailed record keeping, custody and reconciling.
- 3) Long-term debt – recording and reconciling.
- 4) Receipts – collecting, depositing, posting and reconciling.
- 5) Accounting system – performing all general accounting functions and having custody of City assets.
- 6) Disbursements – preparing checks, signing checks and access to the accounting records.
- 7) Petty cash – custody, reconciling and recording.
- 8) Payroll – recordkeeping, preparation and distribution.

Recommendation – We realize with a limited number of office employees, segregation of duties is difficult. However, the City, the Library and the Airport should review their control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Evidence of review of reconciliations should be indicated by initials of the independent reviewer and date of the review.

Response – The City, the Library and the Airport will review their control procedures to obtain the maximum internal control possible with the limited staff they have.

Conclusion – Response acknowledged.

(B) Financial Reporting – Internal controls over financial reporting include actual preparation and review of financial statements, including footnote disclosure, for external reporting, as required by an other comprehensive basis of accounting. The City does not have the internal resources to prepare the full-disclosure financial statements required by an other comprehensive basis of accounting for external reporting purposes. While this circumstance is not uncommon for most small governmental entities, it is the responsibility of management and those charged with governance, to prepare reliable financial data, or accept the risk associated with this condition because of cost or other considerations.

Recommendation – With a limited number of office employees, gaining sufficient knowledge and expertise to properly select and apply accounting principles and prepare full disclosure financial statements for external reporting purposes is difficult. However, we recommend the City continue to review operating procedures and obtain the internal expertise needed to handle all the aspects of external financial reporting, rather than rely on external assistance.

Response – The management officials will attempt to read relevant accounting literature and attend professional education courses to improve in the ability to apply accounting principles. However, it is not fiscally responsible to add additional staff at this time.

Conclusion – Response acknowledged.

City of Centerville

Schedule of Findings

Year Ended June 30, 2014

- (C) Airport Procedures – No evidence could be located that the Airport performed monthly bank reconciliations during the fiscal year.

The Airport buys fuel in bulk and resells the fuel to its customers. However, it does not appear the Airport has procedures in place to provide assurance that all fuel bought for resale is either on hand, sold to customers, or used by the Airport on airport equipment.

The Airport collects most of its monies from the rental of its facilities and from fuel sales. Documentation supporting these collections was inadequate to determine the amount of monies which should have been collected and deposited to the Airport bank account.

The Airport collects some cash from customers. Airport personnel indicated the cash collected is sometimes used to buy supplies for the Airport. However, a ledger was not consistently maintained which documented these cash transactions.

Recommendation – The Airport should perform monthly bank reconciliations. In addition, the Airport should implement procedures to provide assurance that all fuel is accounted for properly, and that all monies received by the Airport from rent and fuel sales are properly collected and deposited to the Airport bank account. The Airport should deposit to the bank all monies received, including all cash received. If petty cash is needed for small purchases, a petty cash fund should be established and be held on an imprest basis.

Response – We will review these issues and take appropriate action.

Conclusion – Response acknowledged.

- (D) Receipts – Instances were noted where the Library did not always deposit receipts on a timely basis. In addition, an immediate record of receipt was not made for some library receipts.

Procedures do not appear to be adequate in the collection of delinquent fire department related service calls.

Recommendation – The Library should implement procedures to ensure all receipts are deposited on a timely basis, and that an immediate record of receipt is made for all Library receipts. The City should also implement procedures to ensure all monies are collected for fire department related service calls.

Response – We will attempt to implement these recommendations.

Conclusion – Response acknowledged.

- (E) Police Collections – The Police Department cashed an \$18 check at a local business. This \$18 check was received from the Appanoose County District Court. The Police Chief indicated this money was used for police department business.

Recommendation – We recommend the City implement procedures to ensure all receipts and deposited to the City's bank account. If petty cash is needed for small purchases, a petty cash fund should be established and be held and maintained on an imprest basis.

Response – We have implemented this recommendation.

Conclusion – Response acknowledged.

City of Centerville

Schedule of Findings

Year Ended June 30, 2014

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

City of Centerville  
Schedule of Findings  
Year Ended June 30, 2014

**Other Findings Related to Required Statutory Reporting:**

- (1) Certified Budget – Disbursements during the year ended June 30, 2014 exceeded the amounts budgeted in the public works, culture and recreation, community and economic development and the capital projects functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – We will implement this recommendation.

Conclusion – Response acknowledged.

- (2) Questionable Disbursements - No disbursements were noted that we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
- (3) Travel Expense – No disbursements were noted of City money for travel expenses of spouses of City officials or employees.
- (4) Business Transactions – Business transactions between the City and City officials or employees of the primary government are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Rob Lind, Council Member Owner of Centerville Greenhouses	Supplies	\$1,302

In accordance with Chapter 362.5 (3) (j) of the Code of Iowa, the transactions with the Council Member do not appear to represent a conflict of interest since total transactions with the individual were less than \$1,500 during the fiscal year.

- (5) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- (6) Council Minutes – Except as noted below, no transactions were found that we believe should have been approved in the Council minutes but were not.

The Centerville Municipal Airport (Airport) claims were not approved by the City Council or published in the newspaper as required by Chapter 372.13 (6) of the Code of Iowa.

Recommendation – Airport claims should be approved by the City Council and published in the newspaper, as required by the Code of Iowa.

Response – We will implement this recommendation.

Conclusion - Response acknowledged.

City of Centerville

Schedule of Findings

Year Ended June 30, 2014

- (7) Deposits and Investments – No instances were noted of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy.
- (8) Revenue Notes – No instances of non-compliance were noted with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy.
- (9) Compliance Issues – The City paid for approximately \$6,000 in costs from the Special Revenue, Employee Benefits Fund which were not related to employee benefits. The Code of Iowa requires that only employee benefit costs be paid for from the Special Revenue, Employee Benefits Fund.

It does not appear that the City's firemen are receiving overtime or compensatory time, as required by the Fair Labor Standards Act.

Recommendation – The City should implement procedures to ensure all costs charged to the Special Revenue, Employee Benefits Fund are for employee benefits. In addition, the City should implement procedures to ensure all employees are compensated in accordance with the Fair Labor Standards Act.

Response – We will implement the above recommendations.

Conclusion – Response acknowledged.

- (10) Financial Condition – As documented in Note 13 in the Notes to the Financial Statements, the Special Revenue, Canine Fund, the Capital Projects, Street Construction Fund and the Capital Projects, Airport Construction Fund all had deficit balances at June 30, 2014.

The City borrowed approximately \$257,000 to help fund the construction costs of sewer improvement projects. However, at June 30, 2014, the City had over \$2,700,000 in cash in the Enterprise, Sewer Fund. The City is paying several thousand dollars of interest on this debt, and the City is only receiving an approximate .25% interest rate on the funds in the bank.

Recommendation – The City should monitor the above funds in order to eliminate these deficits. In addition, the City should review its financing procedures to ensure that it is in the best interests of the City.

Response – We will monitor these funds and attempt to implement this recommendation.

Conclusion – Response acknowledged.

- (11) Release of Claim – The City has not obtained release of claim forms from the Centerville Community School District and Appanoose County in relation to disputed payment in lieu of tax monies. It appears that over four years ago the City met the terms of the agreements with the Centerville Community School District and Appanoose County in relation to the disputed payment in lieu of tax monies.

Recommendation – The City should implement procedures to ensure release of claim forms are obtained from the Centerville Community School District and Appanoose County in relation to the disputed payment in lieu of tax monies.

Response – We are in the process of implementing this recommendation.

Conclusion – Response acknowledged.

City of Centerville  
Schedule of Findings  
Year Ended June 30, 2014

- (12) Public Hearing – The City did not properly publish a notice of public hearing or hold a public hearing on a transportation project as required by Chapters 26.12 and 362.3 of the Code of Iowa.

Recommendation – The City should implement procedures to ensure that the Code of Iowa requirements are met in relation to publishing and holding a public hearing on applicable construction projects.

Response – We will implement this recommendation.

Conclusion – Response acknowledged.

- (13) Sewer User Charge – The City did not increase its sewer user charge on July 1, 2011, July 1, 2012 or July 1, 2013, as required by City ordinance number 1292.

Recommendation – The City should implement procedures to ensure its ordinance is complied with in regards to the sewer user charge.

Response – We will implement this recommendation.

Conclusion – Response acknowledged.

- (14) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The Centerville Public Library (Library) does not receive an image of the back of each cancelled check for one bank account.

Recommendation – The Library should obtain and retain images of both the front and back of cancelled checks as required by Chapter 554D.114 of the Code of Iowa.

Response – We will implement this recommendation.

Conclusion – Response acknowledged.

- (15) Separately Maintained Records – The Library and the Airport maintain separate accounting records for certain operations. These transactions and resulting balances are not included in the City's accounting records.

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, "A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose." For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City's accounting records and reported to the City Council on a monthly basis.

Response – We will attempt to implement this recommendation.

Conclusion – Response acknowledged.

- (16) Payroll – One instance was noted where an employee's compensation was not established by a resolution. In addition, in one instance it appears an employee was overpaid for 24 hours of work.



City of Centerville

Schedule of Findings

Year Ended June 30, 2014

Recommendation – The City should implement procedures to ensure all employee compensation is established by resolution. In addition, the City should implement procedures to ensure all employees are paid for the proper payroll hours.

Response – The above appears to be an oversight on our part. We will implement the above recommendations.

Conclusion – Response acknowledged.

- (17) Miscellaneous - A former employee is still listed as an authorized signer on a bank account signature card.

The City paid for some mowing costs and utility costs from the Special Revenue, Local Option Sales Tax Fund. Based on the wording on the ballot, it is questionable if these costs are allowable to be paid from local option sales tax receipts.

Recommendation – Former employees should be removed from the bank signature cards. In addition, the City should implement procedures to ensure all costs paid from local option sales tax receipts are allowable based on the requirements as documented on the local option sales tax ballot.

Response – We will review this and take appropriate action.

Conclusion – Response acknowledged.

- (18) Disbursements – The Airport paid a claim from a vendor statement and not from an invoice.

The City grants money to a local non-profit development organization. There is no agreement between the City and the non-profit development organization which documents how the monies received are to be spent and what documentation the non-profit development organization is to provide to the City related to the use of the City funds.

Recommendation – The Airport should pay all claims from invoices and not from vendor statements. In addition, the City should enter into an agreement with the non-profit development organization and require documentation of how the funds were used to accomplish economic development activities.

Response – We will review this issue.

Conclusion – Response acknowledged.

- (19) Annual Urban Renewal Report (AURR) – The annual urban renewal report was properly approved and certified to the Iowa Department of Management on or before December 1. However, the following concerns were noted:

- The City's receipts, disbursements, and the beginning and ending cash balances on the Special Revenue, Urban Renewal Tax Increment Fund reported on the Levy Authority Summary do not agree with the City's records.
- The debt balances as reported on the Levy Authority Summary do not agree with the City's records.

City of Centerville

Schedule of Findings

Year Ended June 30, 2014

- The Levy Authority Summary documents an excess cash balance of \$120,672 in the Special Revenue, Urban Renewal Tax Increment Fund as of June 30, 2014. Chapter 24.21 of the Code of Iowa requires, when the necessity for maintaining the Urban Renewal Tax Increment Fund ceases to exist, the excess balance remaining in this fund, if any, should be remitted to the County Treasurer and allocated to the respective taxing districts.

Recommendation – The City should ensure the balances reported on the Levy Authority Summary agree with the City's records. The City should consult legal counsel to determine the disposition of excess monies in the Special Revenue, Urban Renewal Tax Increment Fund. If the City has no additional tax increment financing debt, the \$120,672 should be remitted to the County Treasurer and allocated to the respective taxing districts.

Response – We will consult with our Attorney in relation to the above, and determine an appropriate course of action.

Conclusion – Response acknowledged.